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Getty to play rich uncle for a price

Financier to auction loans to cash-crunched funds



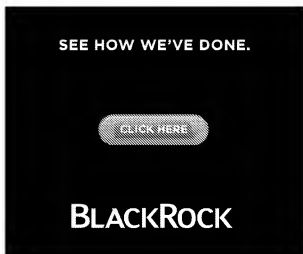
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By Brooke Southall

August 26, 2002 6:01 am ET

An oil tycoon's son has a plan to solve cash-flow problems for smaller mutual funds.

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But one expert says he doubts that any but the most desperate funds will take advantage of the service, because of its cost.

Gordon P. Getty is going to make about \$50 million available for mutual funds to bridge cash shortfalls for up to 28 days.

With a San Francisco-based startup venture called ReFlow Management Co. LLC, Mr. Getty hopes to give those strapped funds an alternative to selling stock positions - and to make some money for himself in the process.

ReFlow plans to accomplish that task by taking possession of the shares as a benevolent shareholder.

Twenty-eight days later it hands back the shares minus an interest charge.

To determine the interest rate, ReFlow conducts a daily online Dutch auction.

ReFlow gets to pocket any gains on the stocks it holds. It absorbs losses, too, though it plans to hedge those positions to keep losses at a minimum.

'Ivory towered'

After examining the plan for two years, the Securities and Exchange Commission approved it in July, apparently satisfied that ReFlow had overcome many concerns, primary among them that all bids be treated fairly, with price as the sole criterion.

Burton Greenwald, a Philadelphia-based financial consultant, says the approach sounds "ivory towered" to him.

He doubts such transactions can be favorable for either the mutual funds or ReFlow.

"Conventional bank financing would seem to be the method of choice" for bridging gaps in mutual fund cash caused by redemptions, he says. "It sounds like a costly alternative."

John McGowan, chief operating officer of ReFlow and Forward Funds Inc. of San Francisco, begs to differ. "A lot of companies understand their own costs of liquidity," he says.

Mr. Greenwald acknowledges that ReFlow may get some takers from the smaller, more desperate fund companies, but he's uncertain why ReFlow would want to do business with such companies.

"The funds that will need it most are ones that have gone through a period of poor performance, and the redemption problem isn't going to be solved in a matter of days or months," he says.

But Mr. McGowan says ReFlow has studied the issue with the assistance of fund-flow tracker TrimTabs.com Investment Research Inc. of Santa Rosa, Calif. The acute cash-flow problems of those smaller funds often last just four to seven days.

The first company to use the service will be Forward Funds itself. Mr. Getty owns Forward Management LLC, the investment adviser for that fund group. The son of the late oil baron J. Paul Getty also is the largest shareholder in each of the funds, owning between 25% and 95% of the funds' assets.

The second fund group likely to make use of that cash is Rockville, Md.-based Rydex Funds, according to a company executive, who says the group has a strong interest in using the ReFlow product.

Barry Strudwick, principal of Strudwick Wealth Strategies in Baltimore, says he likes the fact that ReFlow addresses a real problem.

By finding a way to hold on to positions through cash crunches, fund managers can avoid realizing capital gains at the expense of long-term shareholders, he says.

Mr. Strudwick also is host of "Mutual Perspectives," a weekly public radio show focused on mutual funds.

"I don't know if their product is the solution," he says. "But as an adviser, I am more attuned now to the net after-tax effects of funds and not following the nominal pretax returns published in advertising. Twenty-five percent of all returns need to be adjusted by greater than 50% to reflect the ravages of taxes."

Mr. McGowan says ReFlow is confident that demand for its product will ramp up quickly. Once it has the system down, it plans to "go to Wall Street" to raise much more capital to augment the \$50 million.

"In the scope of this industry, \$50 million isn't a lot," he says.

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Rank	Stock	Amt Held by ETFs	% of Stock's Mkt. Cap.
1	AAPL	\$10,520,889,261	4.01%
2	XOM	\$8,495,364,541	2.69%
3	AMX	\$5,946,066,010	5.55%
4	MSFT	\$5,513,004,958	2.60%
5	CVX	\$5,004,657,563	3.06%

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